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Weekly Commentary

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Weaker labor market in April helps Fed

Did the Department of Labor just do the Federal Reserve a favor?

Last week, the Fed's policy-setting committee met and did not take any rate action, leaving the fed funds target range at 5.25-5.5%. That was expected, as was its announcement that it would taper its quantitative tightening program. Beginning in June, the Fed will reduce the amount of run-off from its balance sheet by lowering the cap on Treasuries from $60 billion to $25 billion per month, while keeping the mortgage-backed securities (MBS) cap at $35 billion.

But Chair Jerome Powell was not as hawkish as some anticipated, saying in his press conference following the meeting that he still believes inflation will decrease this year, and didn't take a rate cut off the table (he firmly said the next rate move would not be a hike). Perhaps to back up this stance, he said that the Fed would also consider cutting rates if the labor market showed signs of cooling. Well, about that…

The Labor Dept. released the April jobs report two days later, on Friday, and it played right into Powell's assertion. It showed that the U.S. employment situation cooled last month, adding only 175,000 jobs, compared to 315,000 added in March. Also, the unemployment rate rose to 3.9% from 3.8% and average hourly earnings declined to 3.9% from 4.1% annualized. One month does not a trend make, but the data raises the potential that it might be the Fed's employment mandate rather than its price stability one that finally gives policymakers the conviction they want to ease.

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